CANADIAN INDUSTRIAL GAS & OIL LTD.

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ANNUAL REPORT

1968

INDEX

Canadian Industrial Gas & Oil Ltd.

Head Office	640 Eighth Avenue S.W., *Calgary 2, Alberta*	

Directors

Herbert C. Andreae	*Toronto, Ontario*
Edmund C. Bovey	*Toronto, Ontario*
C. Spencer Clark	*Seattle, Washington*
Robert B. Craddock	*Montreal, Quebec*
J. Ian Crookston	*Toronto, Ontario*
Edward A. Galvin	*Calgary, Alberta*
Richey B. Love	*Calgary, Alberta*
Arthur Mackwell	*Glen Rock, New Jersey*
Peter N. Thomson	*Montreal, Quebec*
John R. Yarnell	*Montreal, Quebec*

Officers

Edward A. Galvin	*President*
Edmund C. Bovey	*Chairman of the Executive Committee*
Edward G. Battle	*Executive Vice President*
Donald D. Barkwell	*Vice President*
Stewart R. Dyckman	*Vice President*
George T. Hefter	*Vice President*
Wilfrid A. Loucks	*Vice President*
Laurence A. Sills	*Secretary*
A. Kenneth Davies	*Treasurer*
Russell G. Rennie	*Assistant Secretary*

Registrars and Transfer Agents

Common and Preferred Shares:
National Trust Company, Limited,
Calgary, Montreal, Toronto, Vancouver, Winnipeg
The Bank of New York, New York

Auditors

Riddell, Stead, Graham & Hutchison, *Calgary, Alberta*

Exchange Listing

Common and Preferred Shares:
Toronto Stock Exchange, *Toronto, Ontario*

Comparative Summary

YEAR ENDED DECEMBER 31

		1968	1967	1966	1965
Revenue		$23,559,000	$21,788,000	$19,528,000	$17,358,000
Income — before non-cash charges and special credit		$10,680,000	$ 9,444,000	$ 8,259,000	$ 8,081,000
Net income and special credit		$ 6,536,000	$ 6,151,000	$ 5,547,000	$ 5,080,000
Income per Common share — before non-cash charges		$1.88	$1.69	$1.56	$1.46
Net income per Common share (including special credit)		$1.15	$1.11	$1.00	$0.92
Production — Net					
*Oil — Annual (Barrels)	CIGOL	2,599,600	2,447,000	2,264,700	2,144,000
	Prairie	319,300	333,500	344,600	342,060
Daily (Barrels)	CIGOL	7,100	6,700	6,200	5,870
	Prairie	870	910	940	940
Gas — Annual (MMCF)	CIGOL	27,871	24,810	23,488	21,432
	Prairie	913	789	793	915
Daily (MMCF)	CIGOL	76.2	68.0	64.4	58.7
	Prairie	2.5	2.2	2.2	2.5
Industrial Gas Sales					
Annual (MMCF)		37,647	35,695	33,424	29,563
Daily (MMCF)		102.9	97.8	91.6	81.0
Liquefied Gas Sales (Gallons)		39,300,000	37,600,000	35,610,000	24,790,000
Reserves					
*Oil — (Barrels)	CIGOL	41,588,000	41,045,000	38,600,000	29,750,000
	Prairie	3,570,000	2,781,000	3,314,000	3,600,000
Gas — (MMCF)	CIGOL	567,400	563,000	497,000	525,500
	Prairie	28,400	27,000	27,800	28,700
Wells					
Oil — Net	CIGOL	244	257	244	239
	Prairie	11	11	11	10
Gas — Net	CIGOL	135	135	119	114
	Prairie	8	7	6	6
Acreage					
Gross	CIGOL	8,965,147	6,226,875	6,320,000	4,868,000
	Prairie	2,029,317	2,184,640	2,507,548	2,258,752
Net	CIGOL	5,488,133	2,403,025	2,444,000	1,231,000
	Prairie	358,090	399,228	630,010	471,441
Miles of Pipeline System		379	375	318	318
Propane Distribution Plants		36	37	37	33

* Including Condensate.

Directors' Report

E. A. GALVIN, *President*

To the Shareholders:

The 1968 Annual Report of Canadian Industrial Gas & Oil Ltd., including the audited consolidated financial statements for the year ended December 31, 1968, is presented herewith.

FINANCIAL

The Company's income continued its growth in 1968. Operations generated a profit of $10,680,000 before non-cash charges compared to $9,444,000 in 1967, an increase of 13%, and income after non-cash charges but before special credits, was $6,442,000 compared to $5,826,000 in 1967, an increase of 11%. Net income after special credits amounted to $6,536,000 or $1.15 per common share compared to $1.11 in 1967.

Cash income for the year was in excess of funds required for new investments, and long-term debt was reduced approximately $4,000,000. It is anticipated that in 1969 larger amounts will be spent in exploration and acquisitions, and to the extent spending is in excess of income, additional long-term bank financing has been arranged.

PRODUCTION AND RESERVES

All segments of the Company's producing department reported gains over 1967. Crude oil and condensate production, after deduction of all royalties, averaged 7,970 barrels per day, an increase of 5% over the 1967 daily average production of 7,610 barrels. Working interest oil production averaged 6,490 barrels per day, condensate averaged 440 barrels per day and royalty oil averaged 1,040 barrels per day. Natural gas production, after deduction of all royalties, increased 12% to an average of 78.7 MMCF per day in 1968 from 70.2 MMCF per day in 1967. This increase resulted from larger sales to export markets and increased deliveries to the Company's industrial gas system. Sulphur production from gas processing plants increased to 10,390 long tons in 1968 from 6,780 long tons in 1967.

The Company's gross oil and gas reserves increased 4,250,900 barrels and 34,584 MMCF respectively during the year. After deduction of the 1968 production the net increases were 1,332,000 barrels and 5,800 MMCF. At the end of the year the reserves totalled 45,158,000 barrels of oil and 595,800 MMCF of natural gas compared to 43,826,000 barrels and 590,000 MMCF respectively at the end of the preceding year.

CRUDE OIL & CONDENSATE PRODUCTION

Net Barrels

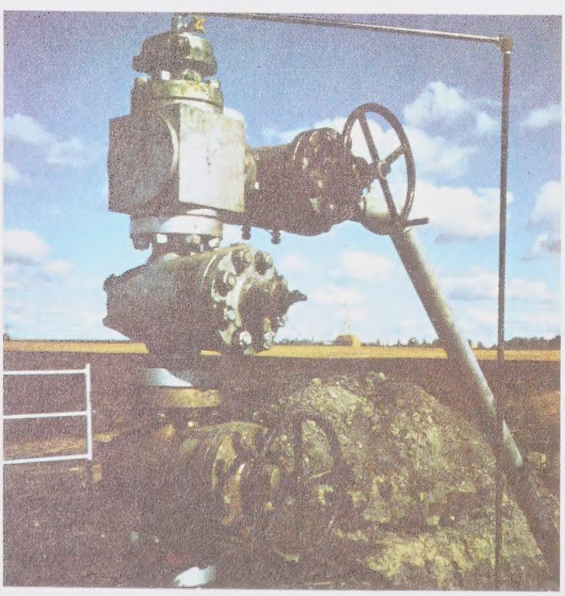
	1968		*1967*	
ALBERTA				
Joarcam	301,000		306,000	
Pembina	257,000		269,000	
Swan Hills	106,000		81,000	
Inverness	75,000		39,000	
Leduc	72,000		79,000	
Simonette	61,000		56,000	
Redwater	58,000		60,000	
West Drumheller	57,000		65,000	
Joffre	53,000		44,000	
Zama	46,000		15,000	
Other fields	216,000		201,000	
Royalty interests	32,000		28,000	
Condensate	159,000		142,000	
Total		1,493,000		1,385,000
SASKATCHEWAN				
Weyburn	242,000		224,000	
West Kingsford	100,000		95,000	
Hazlet	56,000		58,000	
Other fields	142,000		152,000	
Royalty interests	331,000		327,000	
Total		871,000		856,000
BRITISH COLUMBIA				
Peejay	497,000		486,000	
Other fields	27,000		18,000	
Royalty interests	18,000		19,000	
Total		542,000		523,000
OTHER AREAS		12,900		16,500
TOTAL		2,918,900		2,780,500

Pumping Oil Well

NATURAL GAS PRODUCTION

Net Millions of Cubic Feet

	1968		*1967*	
ALBERTA				
Fort Saskatchewan	3,971		3,765	
Bittern Lake	3,153		498	
Westlock	2,414		2,634	
Bindloss	1,905		2,169	
Ghost Pine	1,723		229	
Nevis	1,702		1,408	
St. Albert	1,478		1,186	
Alexander	1,478		2,536	
Pouce Coupé	1,119		1,534	
Crossfield	1,063		878	
Other fields	3,184		3,263	
Royalty interests	680		654	
Total		23,870		20,754
BRITISH COLUMBIA				
Jedney, Bubbles, Laprise	3,954		4,191	
Other fields	368		390	
Total		4,322		4,581
OTHER AREAS		592		264
TOTAL		28,784		25,599

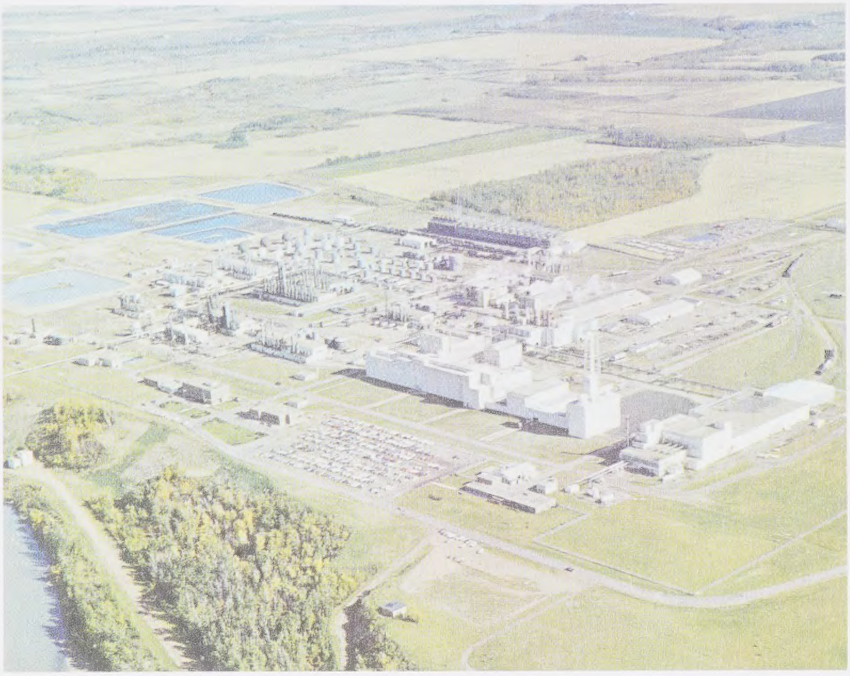


Gas Well "Christmas Tree"

INDUSTRIAL GAS OPERATIONS

Total sales of natural gas to consumers in the Company's industrial gas system increased 5% to a daily average of 102.9 MMCF in 1968 from 97.8 MMCF in 1967. The larger sales resulted from the additional requirements of existing customers. Gas purchased from third parties during 1968 averaged 52.3 MMCF per day, while gas wells in which the Company owns an interest produced 36.7 MMCF per day for the Company, and 15.5 MMCF per day for its royalty owners. Shrinkage losses accounted for 1.6 MMCF per day.

A major expansion of the Company's existing processing plant at St. Albert, Alberta was completed during the year. This plant processes gas delivered to certain industrial consumers served by the industrial gas system. In addition to increasing the condensate recovery, the expansion will result in daily recoveries of 9,900 and 6,000 Imperial gallons of propane and butane respectively. The propane and butane will be marketed by the Company's wholly-owned subsidiary, Cigas Products Ltd.



Chemcell Limited
Industrial Gas Customer

EXPLORATION

The Company continued in its aggressively expansive exploration program by acquiring oil and gas prospect acreage along the Brooks Range on the Alaska North Slope, in the Beaufort Sea off the Mackenzie Delta in the Northwest Territories, in Hudson Bay and off the coast of Labrador. Substantial new acreage was added to the Company's large holdings in the Arctic Islands and a number of important land acquisitions were made in the Western Canada Sedimentary Basin. Mineral prospects were increased by obtaining prospecting permits and claims in the Wollaston Lake and Uranium City areas of Saskatchewan. Petroleum and Natural Gas rights at year end were 10,994,000 gross (5,846,000 net) acres, and an interest was held in 621,000 acres of other mineral rights. A summary of acreage holdings is shown on page 8. The Company participated in the drilling of 68 wells, of which 13 are oil wells and 15 gas wells. (See summary on page 7.).

Arctic Islands

One of the most exciting and important oil and gas exploration ventures underway at the present time is the multi-million dollar program of Panarctic Oils Ltd. in the Arctic Islands. Panarctic has announced its initial two wells. The first, a deep test will be on the Sabine Peninsula of Melville Island, on lands in which Prairie Oil Royalties Company, Ltd., a subsidiary of the Company, and British Columbia Oil Lands Ltd. (owned 35.2% by Prairie) each has an interest. Drilling is scheduled to commence late in March of 1969. The Company owns an additional 823,000 acres which are farmed out to Panarctic, an interest in 1,190,000 acres of offshore rights, and a 0.6776% participation in Panarctic Oils Ltd.

Northern Alaska

In 1968 Northern Alaska became, by virtue of what is indicated to be a huge oil discovery made by Atlantic Richfield at Prudhoe Bay, one of the largest highly potential oil and gas areas in the western hemisphere. The Company was successful in acquiring by filing a preferential right to take leases on a total of 220,000 acres in the area, 174,000 acres on the North Slope and 46,000 acres in the Chukchi Basin.

Mackenzie Delta and Beaufort Sea

Considerable interest has been focussed on the Mackenzie Delta and Beaufort Sea as a result of the Prudhoe Bay, Alaska strike. The Company has acquired by filing a 100% interest in 327,000 acres of offshore rights in the prospect area. A small interest is also held in 85,000 acres in the same general area.

Hudson Bay

The first exploratory test well has been announced by Aquitaine for the extensive and yet untested Hudson Bay Sedimentary Basin. Operations will commence on the well in mid-summer 1969. In anticipation of this test the Company by filing acquired Petroleum and Natural Gas Permits covering 1,405,000 acres located in the northern portion of the Bay near Coates and Southampton Islands.

Drilling Rig

Labrador

A new and fascinating exploration play is developing in what appears to be a highly prospective sedimentary basin off the coast of Labrador. The Company acquired in early 1969 permits covering 1,031,000 acres.

Senex Creek

As publicly reported, a Devonian oil discovery has been made in the Senex Creek area of northwest Alberta approximately 240 miles north of Edmonton. The Company holds a 12½% working interest in the discovery well and interests varying from 12½ to 25% in a total of 36,000 acres in the prospect area. Several follow-up wells are planned for this area in the very near future.

Cherhill - Glenevis

An exploratory program in which the Company participated in the Cherhill - Glenevis area of west-central Alberta has resulted in one oil and two gas discoveries. To date three development wells have been completed as oil producers. An interest is held in 44,000 acres in the vicinity of these discoveries, as well as in an additional 54,000 acres on trend to the south. An active exploratory program will continue in the area during 1969.

Little Bow

A Glauconite sand oil discovery was made in the Little Bow area of southern Alberta in December of 1967 on lands in which the Company holds a 25% interest. Since the discovery, drilling has yielded three additional oil wells and further development of the pool is anticipated.

North Sea

Continuing drilling activity in the North Sea provided information and results which serve to enhance the prospects for the Company's holdings. The Company and its partners plan to drill at least two wells in 1969, one of which will be located on a major seismic structure. Additional seismic will also be carried out during the year on some of the more interesting areas.

Off-shore Drilling Rig

DRILLING SUMMARY

In 1968 the Company participated in the drilling of 68 wells, the results of which are as follows:

Canadian Industrial Gas & Oil Ltd.

	Oil		*Gas*		*Abandoned*		*1968 Total*		*1967 Total*	
	Gross	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*
Alberta	7	2.7500	13	1.9417	12	4.6827	32	9.3744	39	10.8990
British Columbia	2	.3000	—	—	9	3.3530	11	3.6530	11	2.2510
Saskatchewan	3	.6275	—	—	10	3.3900	13	4.0175	13	3.1640
North Sea	—	—	—	—	1	.2000	1	.2000	2	.8000
Totals	12	3.6775	13	1.9417	32	11.6257	57	17.2449	65	17.1140

In addition to the above, varying gross royalty interests were held in 18 oil wells and 9 gas wells.

Prairie Oil Royalties Company, Ltd. (Owned 78% by the Company)

	Oil		*Gas*		*Abandoned*		*1968 Total*		*1967 Total*	
	Gross	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*
Alberta	—	—	2	2.0000	6	2.4995	8	4.4990	2	.4160
Saskatchewan	1	.7500	—	—	2	.8750	3	1.6250	1	1.0000
Totals	1	.7500	2	2.0000	8	3.3740	11	6.1240	3	1.4160

In addition to the above, Prairie held varying gross royalty interests in 25 oil wells.

	Oil		*Gas*		*Abandoned*		*1968 Total*		*1967 Total*	
	Gross	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*
Total for the Company and Prairie Oil Royalties Company, Ltd.	13	4.4275	15	3.9417	40	14.9997	68	23.3689	68	18.5300

ACREAGE HOLDINGS AS AT DECEMBER 31 1968

CANADIAN INDUSTRIAL GAS & OIL LTD.

	Gross Acres	Net Acres	Royalty Acres	Mineral Net Acres
Alberta	2,107,893	853,029	290,811	—
British Columbia . . .	1,450,038	232,592	—	640
Saskatchewan and Manitoba	1,030,096	454,852	245,320	753,755
Total Western Canada	4,588,027	1,540,473	536,131	754,395
Arctic Islands	1,985,749	1,985,749	—	—
Ontario	11,123	11,123	—	3,015
Beaufort Sea	327,145	327,145	—	—
Hudson's Bay	1,404,688	1,404,688	—	—
Yukon	—	—	—	640
Total Canada . . .	8,316,732	5,269,178	536,131	758,050
North Sea, U.K. . . .	648,415	218,955	—	—
Total	8,965,147	5,488,133	536,131	758,050

PRAIRIE OIL ROYALTIES COMPANY, LTD.

	Gross Acres	Net Acres	Royalty Acres	Mineral Net Acres
Alberta	134,938	57,712	7,360	—
Saskatchewan	73,652	46,113	560,206	—
Manitoba	134,097	39,142	—	—
Total Western Canada	342,687	142,967	567,566	—
Northwest Territories .	—	—	18,021	—
Arctic Islands	1,686,630	215,123	—	—
Total	2,029,317	358,090	585,587	—
TOTAL ACREAGE OF THE COMPANY AND PRAIRIE OIL ROYALTIES COMPANY, LTD. . .	10,994,464	5,846,223	1,121,718	758,050

Wollaston Lake

During the summer of 1968 Gulf Minerals made what appears to be a highly significant uranium discovery in the Wollaston Lake area of Saskatchewan. The Company was successful in obtaining two well located permits in the vicinity of Gulf's discovery. Agreement has been reached on an option basis for a third company to carry out during the next three years an extensive exploratory program on these holdings to earn an interest. Early in 1969, a third permit in this region, located in extreme northwestern Manitoba, was acquired by the Company.

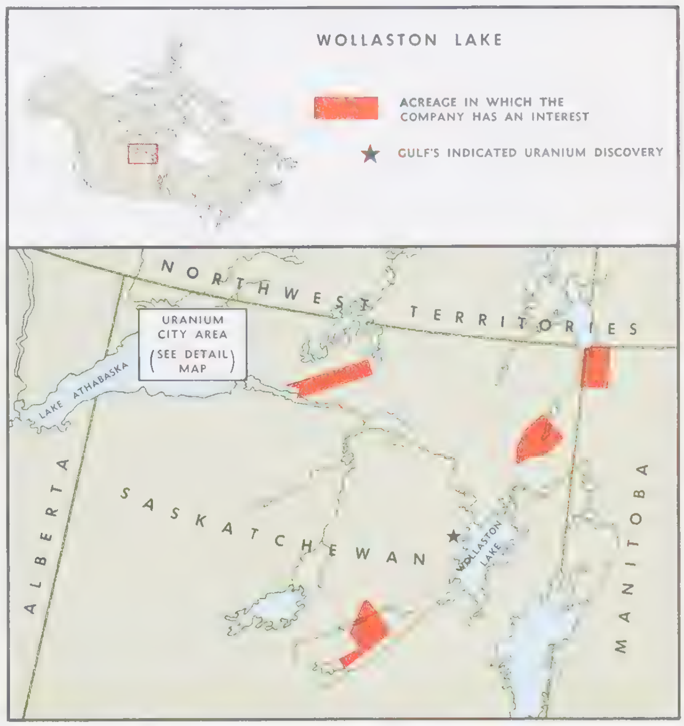
Uranium City Area

Since May 1968 the tempo of exploration activity in the Uranium City area has intensified considerably, and promises to be still greater during 1969. One of the foremost reasons for this activity was the discovery of a copper-silver showing about ten miles northwest of Uranium City. This is a new type of mineralization for the area and could have considerable significance. Since September the Company has pursued a course of aggressive property acquisition and now has interests in option agreements or the ownership of more than 1,200 claims.

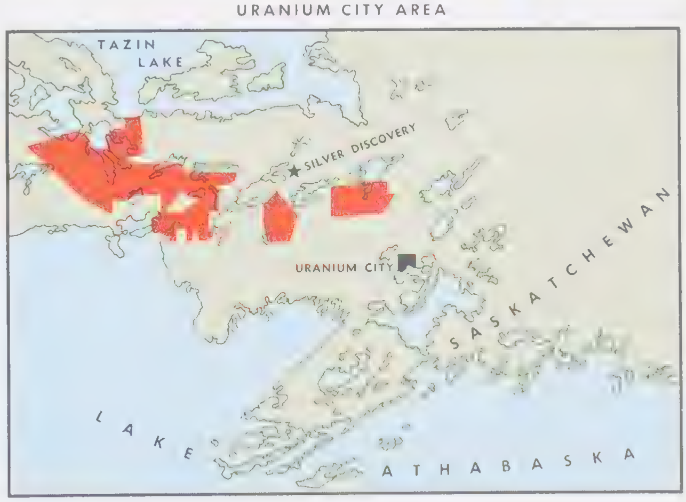
Anglesey

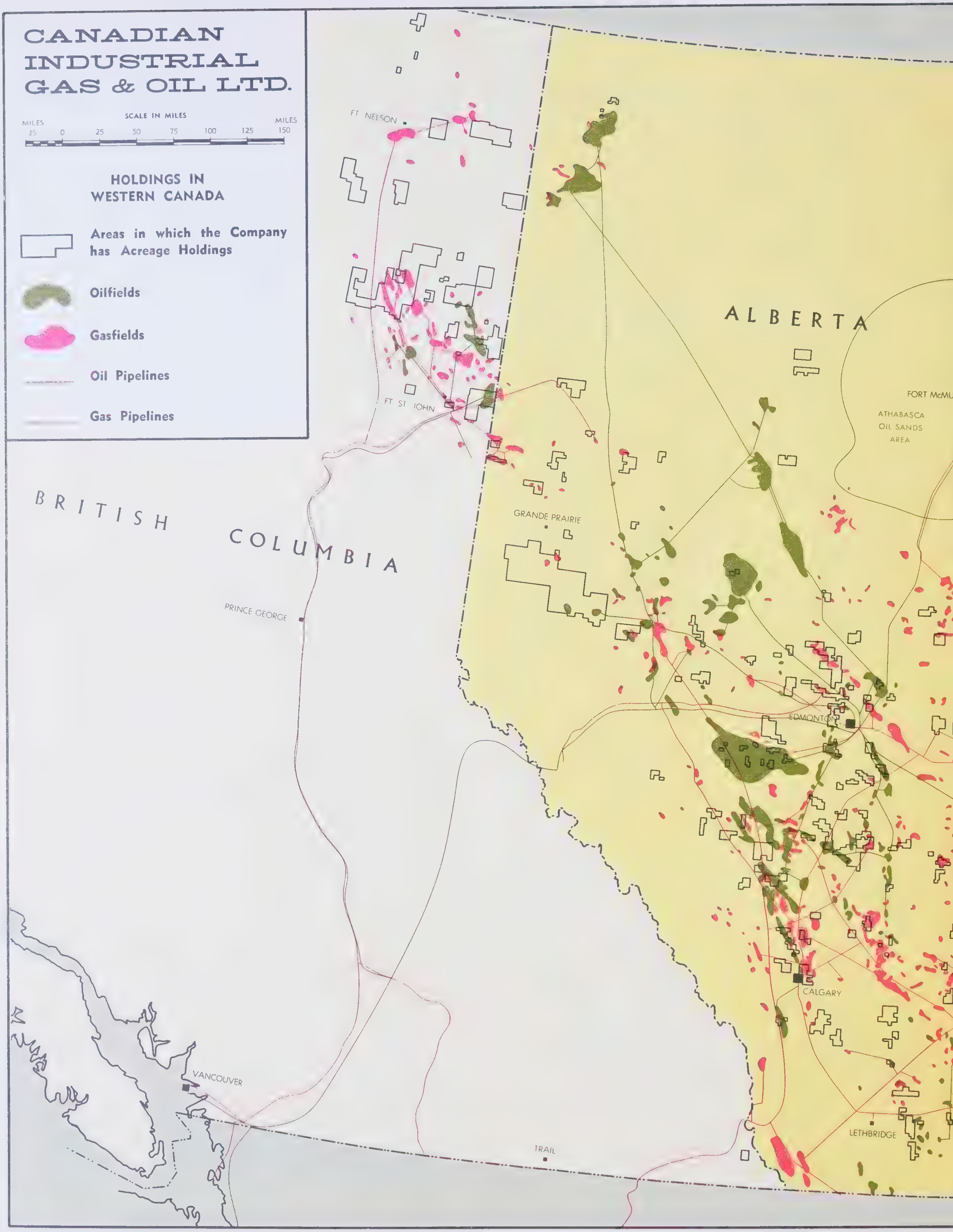
At Parys Mountain on the Isle of Anglesey, North Wales, delineation of the "White Rock" lead-zinc-copper zone is essentially completed and tests are currently being run on samples of the ore to determine possible methods of concentration. Exploration is presently being focussed on the "North Zone" where copper mineralization has been encountered over an indicated strike length of 1,300 feet which is open on either end and at depth. Thicknesses up to 300 feet have been penetrated, suggesting the possibility of very large ore tonnages. Two diamond drill rigs are currently in operation at the site. Some of the drilling results in this zone are tabulated below.

Hole No.	*Location*	*Average % Copper*	*Thickness in Feet*	*Including*
M10		0.49	309	0.87% over 47 feet and 0.95% over 33 feet
M1	420 feet easterly from M10	0.91	275	1.40% over 72.5 feet
17A	415 feet easterly from M1	0.71	285	1.05% over 35 feet and 1.21% over 55 feet
M4	500 feet updip from 17A (southerly)	1.10	30	
30	480 feet easterly from M4	3.45	20	

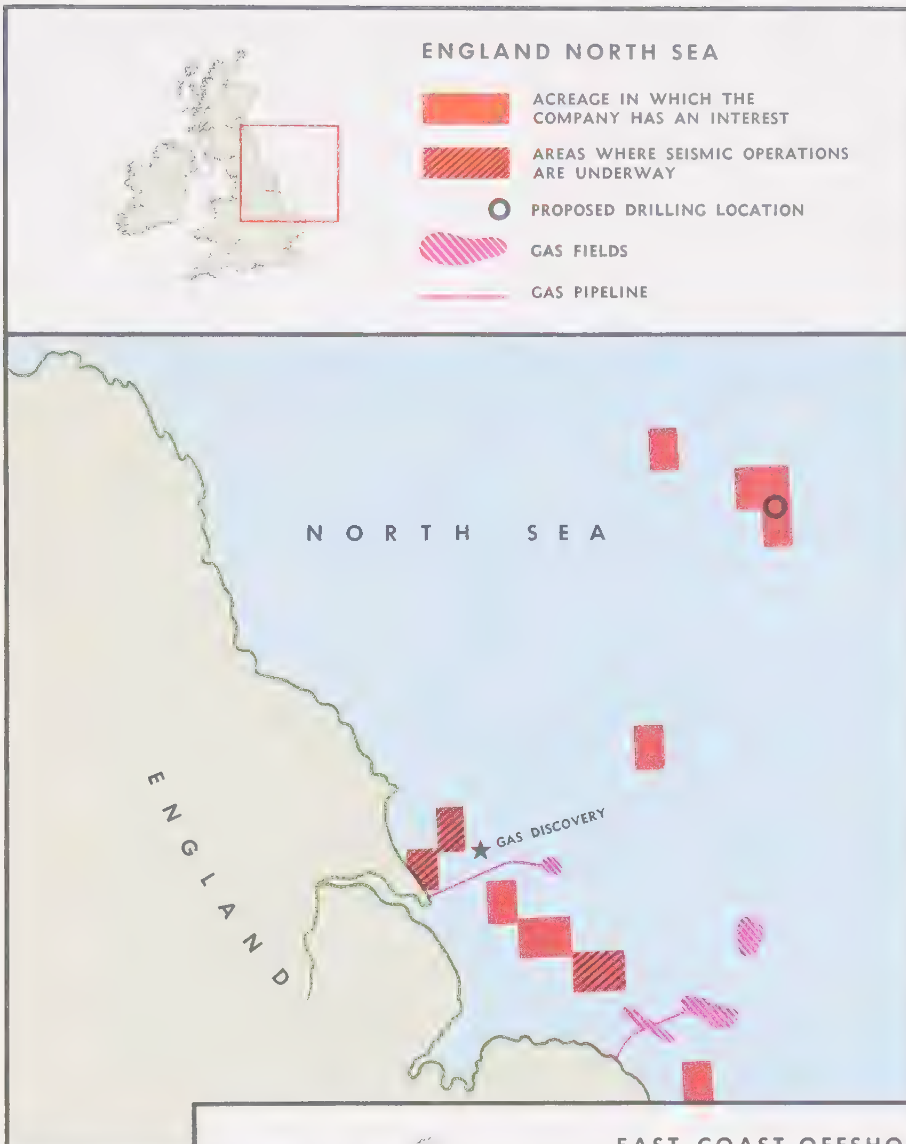


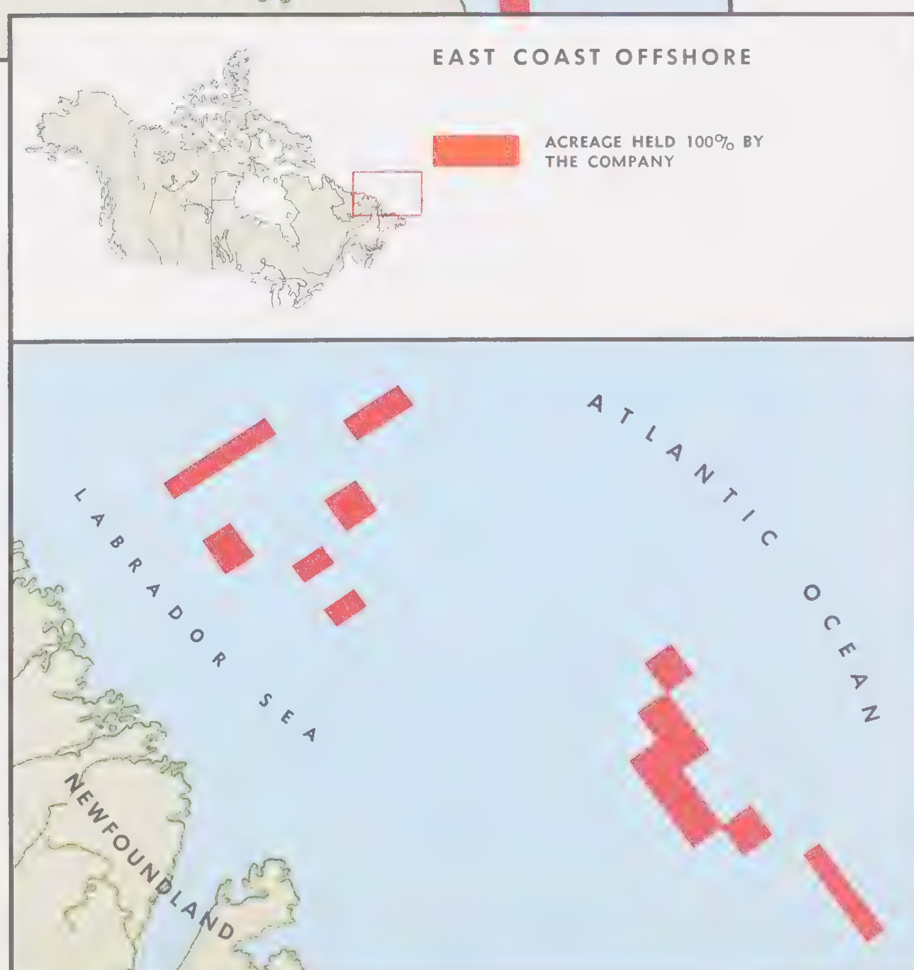
URANIUM CITY AREA




CANADIAN INDUSTRIAL GAS & OIL LTD.
SCALE IN MILES
MILES 25 0 25 50 75 100 125 150 MILES
HOLDINGS IN WESTERN CANADA
Areas in which the Company has Acreage Holdings
Oilfields
Gasfields
Oil Pipelines
Gas Pipelines
ALBERTA
BRITISH COLUMBIA
FT NELSON
FT ST JOHN
GRANDE PRAIRIE
PRINCE GEORGE
ATHABASCA OIL SANDS AREA
EDMONTON
CALGARY
LETHBRIDGE
VANCOUVER
TRAIL


SASK
SWIFT CURRENT
U. S. A.


ENGLAND NORTH SEA
ACREAGE IN WHICH THE COMPANY HAS AN INTEREST
AREAS WHERE SEISMIC OPERATIONS ARE UNDERWAY
PROPOSED DRILLING LOCATION
GAS FIELDS
GAS PIPELINE
NORTH SEA
ENGLAND
GAS DISCOVERY


EAST COAST OFFSHORE
ACREAGE HELD 100% BY THE COMPANY
ATLANTIC OCEAN
LABRADOR SEA
NEWFOUNDLAND


HUDSON BAY
ACREAGE HELD 100% BY THE COMPANY
AQUITAINE WELL LOCATION
N.W.T.
HUDSON BAY
QUEBEC
MANITOBA
SASKATCHEWAN
PRINCE ALBERT
SASKATOON
REGINA
MOOSE JAW
SWIFT CURRENT
MANITOBA
BRANDON
WINNIPEG
U.S.A.

CANADIAN ARCTIC ISLANDS

LANDS IN WHICH VARYING INTERESTS ARE HELD BY:

CANADIAN INDUSTRIAL GAS & OIL LTD.
PRAIRIE OIL ROYALTIES COMPANY, LTD.
BRITISH COLUMBIA OIL LANDS LTD.

PANARCTIC WELL LOCATION

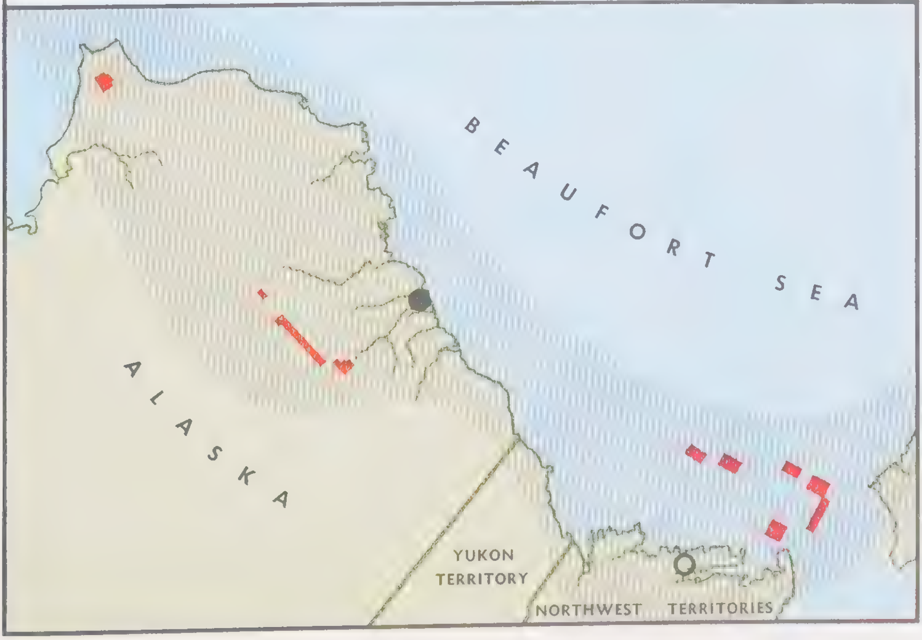
ALASKA AND BEAUFORT SEA

ACREAGE IN WHICH THE COMPANY HAS AN INTEREST

PRUDHOE BAY OIL DISCOVERY

IMPERIAL WILDCAT

ALASKA NORTH SLOPE AND COASTAL PLAINS BASINS.



A northern mining community served by Cigas

LIQUEFIED GAS

Cigas Products Ltd., the Company's wholly-owned LP gas marketing subsidiary, increased its propane and butane sales to 39,300,000 gallons in 1968 from 37,600,000 gallons in 1967, an increase of 1,700,000 gallons. This overall increase was effected despite a major loss of propane sales when natural gas service was made available to the Town of Fort McMurray, Alberta. Continued growth was experienced in other sales areas, with particularly good results in commercial and industrial applications. Services were initiated for major construction projects, including buildings, pipelines and highways, as well as for the mining and forest product industries.

Construction difficulties, which delayed the completion of the underground storage project in the State of Washington, have been overcome and it is expected that its utilization will commence early in 1969. This facility is owned and operated by Underground Storage Inc., owned equally by Cigas Products Ltd. and by the 50% co-owners with Cigas of Western Propane Inc., which markets LP gas in the Pacific Northwest. Shortage of supply of LP gas in this area during peak winter periods makes this facility a valuable addition to operations there.

As forecast, new gas processing plants in Alberta have increased the availability of product and no supply problems are expected for the 1969-70 heating season.

SUMMARY

The Company, in 1968, produced favourable financial results and a continuance of its growth. The prospects for 1969 are good and it is expected that the Company will produce and sell more oil, gas and gas liquids. The 1969 Capital Budget in excess of $12,000,000 reflects anticipated expansion in all areas of operations. The expertise of the Company's personnel, coupled with its strong financial position, will provide the background for expected advances in 1969 in an increasingly competitive oil and gas industry.

On Behalf of the Board,

E.A. Galvin

President.

Calgary, Alberta.
March 14, 1969.

RIDDELL, STEAD, GRAHAM & HUTCHISON
CHARTERED ACCOUNTANTS

407 EIGHTH AVENUE S.W.
CALGARY 2, ALBERTA

AUDITORS' REPORT

To the Shareholders
Canadian Industrial Gas & Oil Ltd.

We have examined the consolidated balance sheet of Canadian Industrial Gas & Oil Ltd. and subsidiary companies as at December 31,1968 and the consolidated statements of income, retained earnings, paid-in surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31,1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Riddell, Stead, Graham & Hutchison

February 18,1969.

Canadian Industrial Gas & Oil Ltd.

AND SUBSIDIARY COMPANIES

Assets

	1968	*1967*
Current Assets		
Cash and short-term deposits	$ 3,130,171	$ 1,366,581
Accounts and notes receivable	4,269,904	3,918,985
Inventories of merchandise and supplies at lower of cost or replacement cost	737,741	803,233
Prepaid expenses and deposits	363,595	179,943
	8,501,411	6,268,742
Investments		
Fifty percent owned companies		
Shares at cost plus equity in undistributed earnings	680,805	807,066
Advances	93,235	88,612
Other companies, at cost		
Note receivable	287,375	287,375
Shares (Note 3)	2,378,120	2,322,688
	3,439,535	3,505,741
Property, Plant and Equipment, at cost (Notes 1, 2 and 4)	91,205,466	86,567,480
Accumulated depletion and depreciation	32,562,042	28,863,050
	58,643,424	57,704,430
Other Assets (Note 5)	294,035	301,755
	$70,878,405	$67,780,668

Signed on Behalf of the Board:

E. A. Galvin, *Director*

E. C. Bovey, *Director*

The accompanying notes are an integral part of this financial statement.

Consolidated Balance Sheet

as at December 31, 1968

Liabilities

	1968	1967
Current Liabilities		
Accounts and notes payable and accrued charges	$ 2,603,866	$ 3,106,353
Dividend payable	97,087	109,856
Current maturities on long-term debt	2,838,524	2,809,587
	5,539,477	6,025,796
Long-Term Debt (Note 6)	14,687,101	18,531,132
Deferred Rental Income	443,453	453,080
Minority Interest in Subsidiary Company	1,233,757	1,101,240

Shareholders' Equity

	1968	1967
Capital Stock (Note 7)		
Authorized		
500,000 5½% cumulative redeemable convertible voting preferred shares, par value $10 each		
6,000,000 common shares without par value		
Issued		
353,042 (1967 - 399,477) preferred shares	3,530,420	3,994,770
5,495,291 (1967 - 5,360,843) common shares	19,033,307	17,595,957
	22,563,727	21,590,727
Paid-In Surplus	1,365,399	1,365,399
Retained Earnings (Note 8)	25,045,491	18,713,294
	48,974,617	41,669,420
	$70,878,405	$67,780,668

The accompanying notes are an integral part of this financial statement.

Canadian Industrial Gas & Oil Ltd.

AND SUBSIDIARY COMPANIES

Consolidated Statement of Income

For the year ended December 31, 1968

	1968	*1967*
SALES, SERVICE AND OTHER OPERATING REVENUE	$23,558,572	$21,788,135
COSTS AND EXPENSES		
Gas and other merchandise purchased	5,777,169	5,772,005
Selling, operating and administrative expenses	5,804,624	5,486,567
Interest	1,236,585	972,163
Depletion	2,435,486	2,045,925
Depreciation	1,730,270	1,586,294
Minority interest	132,517	99,106
	17,116,651	15,962,060
NET INCOME	6,441,921	5,826,075
SPECIAL CREDIT		
Gain on disposal of assets	94,517	325,063
NET INCOME AND SPECIAL CREDIT (Note 9)	$ 6,536,438	$ 6,151,138

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Paid-in Surplus

For the year ended December 31, 1968

	1968	1967
Balance at Beginning of Year	$ 1,365,399	$ 1,374,489
Adjustment resulting from additional share acquisition	—	9,090
Balance at End of Year	$ 1,365,399	$ 1,365,399

Consolidated Statement of Retained Earnings

For the year ended December 31, 1968

	1968	1967
Balance at Beginning of Year	$18,713,294	$12,678,973
Adjustment resulting from additional share acquisition	—	102,895
Net income and special credit	6,536,438	6,151,138
	25,249,732	18,933,006
Dividends on preferred shares	204,241	219,712
Balance at End of Year	$25,045,491	$18,713,294

The accompanying notes are an integral part of these financial statements.

Canadian Industrial Gas & Oil Ltd.

AND SUBSIDIARY COMPANIES

Consolidated Statement of Source and Application of Funds

For the year ended December 31, 1968

	1968	*1967*
FUNDS DERIVED FROM		
Operations		
Net income and special credit	$ 6,536,438	$ 6,151,138
Non-cash items	4,143,826	3,293,033
	10,680,264	9,444,171
Sale of assets	821,674	1,159,291
Issuance of common shares	973,000	90,000
Long-term debt increase	—	3,216,112
	12,474,938	13,909,574
FUNDS APPLIED TO		
Property, plant and equipment	5,655,025	14,345,532
Long-term debt reduction	3,844,031	—
Dividends	204,241	219,712
Investment in affiliated and other companies	43,026	194,887
Decrease (increase) in deferred income	9,627	(19,897)
	9,755,950	14,740,234
INCREASE (DECREASE) IN WORKING CAPITAL	$ 2,718,988	$ (830,660)

The accompanying notes are an integral part of this financial statement.

Notes to Financial Statements

as at December 31, 1968

Note 1—PRINCIPLES OF CONSOLIDATION

The consolidated financial statements for the year ended December 31, 1968 include the accounts of Canadian Industrial Gas & Oil Ltd. and all of its subsidiaries. All subsidiaries are wholly-owned with exception of Prairie Oil Royalties Company, Ltd., in which the Company has a 78% interest. The excess of the cost of shares of purchased subsidiaries over the underlying net book value of their assets at dates of acquisition has been included in property, plant and equipment and is being systematically amortized on the same basis as the assets to which it relates.

Note 2—ACCOUNTING POLICIES

The companies follow the practice of capitalizing both productive and non-productive costs related to the exploration for and the development of oil and gas reserves, and of depleting such costs on a composite unit of production method based on total estimated reserves.

Depreciation of pipelines, plants and equipment is being provided at varying rates on the straight line basis.

Note 3—SHARES IN OTHER COMPANIES

Investment in shares of other companies at December 31, 1968 includes 333,522 shares of British Columbia Oil Lands Ltd. (approximately 35% of that company's outstanding capital stock) at a cost of $2,009,117 with an approximate market value of $4,000,000. Because of the number of shares of British Columbia Oil Lands Ltd. involved, the market value is not necessarily indicative of the amount that would be realized if that investment were sold.

Note 4—PROPERTY, PLANT AND EQUIPMENT

	1968	*1967*
Oil and gas properties	$60,824,168	$58,195,833
Oil and gas production equipment	9,985,900	9,423,510
Pipelines and processing plants	10,991,926	10,062,961
Propane marketing equipment	9,403,472	8,885,176
	91,205,466	86,567,480
Less		
Accumulated depletion	18,695,755	16,483,270
Accumulated depreciation	13,866,287	12,379,780
	32,562,042	28,863,050
	$58,643,424	$57,704,430

Note 5—OTHER ASSETS

Included in other assets at December 31, 1968 are $97,560 due from officers (since repaid) and $196,475 unamortized financial expense.

Note 6—LONG-TERM DEBT

	1968	*1967*
5⅞% First Mortgage Sinking Fund Bonds, due February 1, 1983 — $10,675,000 (U.S.) — subject to semi-annual sinking fund payments of $325,000 (U.S.) commencing August 1, 1968	$11,495,055	$11,845,021
Bank loans secured by certain producing properties repayable in monthly instalments of $166,000 with interest at prime bank rates for such loans	5,700,000	9,033,000
Purchase agreement, interest free, repayable in annual instalments to 1970	122,000	226,600
6% notes repayable $26,100 quarterly	131,898	236,098
7½% mortgage repayable in annual instalments of $7,500 including interest	76,672	—
	17,525,625	21,340,719
Current maturities included in current liabilities	2,838,524	2,809,587
	$14,687,101	$18,531,132

Long-term debt maturities and sinking fund requirements for each of the four years subsequent to 1969 are as follows: 1970 — $2.0 million, 1971 — $1.9 million, 1972 — $1.9 million, 1973 — $0.8 million.

Note 7—CAPITAL STOCK

Changes in the share capital accounts during the year were as follows:

	Preferred Shares		*Common Shares*	
	Number of Shares	*Consideration*	*Number of Shares*	*Consideration*
Balance, January 1, 1968	399,477	$3,994,770	5,360,843	$17,595,957
Issued for cash on exercise of options	—	—	97,300	973,000
Issued on conversion of preferred shares into common shares	(46,435)	(464,350)	37,148	464,350
Balance, December 31, 1968	353,042	$3,530,420	5,495,291	$19,033,307

At December 31, 1968 options were outstanding to officers and other employees to purchase 122,200 common shares of the Company at $10 per share exercisable from time to time to October 26, 1973.

Preferred shares are convertible into common shares until July 1, 1973 at the rate of four common shares for five preferred shares, after which date the preferred shares are redeemable at par. The conditions attaching to the preferred shares purport to provide that, when preferred shares are converted, the authorized number of common shares increases and the authorized number of preferred shares decreases in the same ratio in which preferred shares are converted into common shares. During the year the Company received opinion of counsel that, with respect to any conversions of preferred into common shares, authorized capital should not be changed, and therefore now shows its capital in the originally authorized amounts. Of the authorized preferred shares, 105,723 shares had been issued and surrendered for conversion to December 31, 1968 and are not available for re-issuance.

As at December 31, 1968, 404,634 common shares were reserved under the option and conversion privileges referred to above.

On February 18, 1969 the directors of the company resolved to seek shareholder approval to subdivide its outstanding common shares on a three-for-one basis, and to increase the number of common shares the company is authorized to issue to 50,000,000.

Note 8—DIVIDEND RESTRICTIONS

The terms of the Deed of Trust and Mortgage securing the Company's First Mortgage Sinking Fund Bonds restrict the amount of retained earnings available for dividends as at December 31, 1968 to approximately $18.2 million.

Note 9—INCOME TAXES

For income tax purposes the companies have claimed drilling, exploration and lease acquisition costs and capital cost allowances in amounts which, in the aggregate, exceed the related depletion and depreciation provisions reflected in its accounts. As a result no income taxes are payable in respect of the income reported for the current year and expenditures remain to be carried forward (subject to assessment by taxation authorities) and applied against future taxable income as follows:

Drilling, exploration and lease acquisition costs	$ 2,000,000
Undepreciated capital cost	$12,000,000

Commencing January 1, 1968 the companies adopted the policy of providing for deferred income taxes at such time as taxes otherwise payable are deferred as a result of claiming capital cost allowances in excess of depreciation recorded. However, management does not believe that it is appropriate to provide for income taxes deferred as a result of claims for drilling, exploration and lease acquisition costs; while the view of management conforms with general practice in the oil and gas industry, it differs from the tax allocation basis of accounting recommended by the Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants under which the income tax provision is based on the income reported in the accounts.

On the foregoing basis, no deferred tax provision has been required for 1968. If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income tax provisions would have been $2,250,000 and $2,150,000 for 1968 and 1967 respectively. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately $11,500,000 at December 31, 1968.

Note 10—REMUNERATION OF DIRECTORS AND OFFICERS

Included in selling, operating and administrative expenses in the 1968 consolidated statement of income is $237,158 remuneration to directors and officers.

CANADIAN INDUSTRIAL GAS & OIL LTD.
1968 ANNUAL REPORT

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covering 1,189,957 acres in the Arctic Islands. In addition 822,701 acres of P. & N.G. rights are held by the Company which are under commitment to Panarctic Oils Limited and through Prairie Oil Royalties Company, Ltd. an interest is held in 1,686,630 acres also under agreement with Panarctic. The exploration program of PanArctic has commenced and it includes exploration on part of the Prairie land holdings. It is anticipated that the first well will be drilled early in 1969.

MINERAL EXPLORATION

Canada

The Company continues to be active in mineral exploration in several localities and of particular significance is the optioning of more than 900 claims in an area approximately 20 miles northwest of Uranium City, Saskatchewan, adjacent to an interesting copper silver discovery made by another company.

United Kingdom

Exploration on Parys Mountain on the Isle of Anglesey, North Wales, has been in progress by the Company during the past two years, but has been greatly intensified since March of this year when an intersection of 71 feet was cored averaging 26% lead, zinc, copper, which also carried values of gold and silver. Three diamond drill rigs are now working on the property. As a result of a total of 23 diamond drill holes, mineralized zones have been encountered in at least 6 separate areas. One of these areas, the "White Rock", has an indicated 600,000 tons of material grading 0.30% copper, 2.29% lead, 4.05% zinc and 1 oz. of silver per ton. Drilling is continuing here to further delineate the ore zone. Sufficient work has been done to indicate that at least one of the other areas where mineralization has been encountered shows promise of large tonnage. One hole drilled in 1962 in this zone penetrated a core section of 275 feet averaging approximately 1% copper. In each of the other areas ore grade material has been encountered, but insufficient work has been done to indicate tonnage.

A mining subsidiary, Parys Mountain Mines Ltd., an Ontario corporation, has been formed to further explore and develop the property.

GAS PLANT EXPANSION

Construction is proceeding on an expansion to the existing plant at St. Albert, Alberta to provide recoveries of liquefied petroleum gases. Start-up of the expanded plant is planned for October, 1968 and expected daily recoveries from the 20 MMCF of raw gas to be processed are 9,900 Imperial gallons of propane and 6,000 Imperial gallons of butane.

Respectfully submitted,
On Behalf of the
Board of Directors,

E. L. Galvin

President.

Calgary, Alberta.
August 29, 1968.

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CANADIAN INDUSTRIAL GAS & OIL LTD.

INTERIM REPORT

AUGUST 29, 1968

To the Shareholders:

The unaudited consolidated statements of income and source and application of funds for the six months ended June 30, 1968 with comparative figures for the same period of 1967 are presented herewith.

Gross income of $11,811,000 for the six months ended June 30, 1968 was 13% more than in the corresponding period of 1967. Cash income of $5,297,000 was up $679,000 or 15%, and net income (before special credits arising from gain on the sale of assets) increased $285,000 or 10% to $3,130,000. Net income per common share was 56¢ compared to 51¢ in the first half of 1967, and including the special credits was 58¢ compared to 57¢.

EXPLORATION

Oil and Gas Exploration—Western Canada

Good progress is being made in our oil and gas exploration. To date in 1968 various land acquisitions have resulted in a 30% increase in net land holdings and of the 59 wells drilled in which the company participated, 10 have been completed as gas wells and 11 as oil wells. Exploration activity will remain at a high level during the remainder of the year.

North Sea

A significant gas discovery has been made by Gulf Oil (Great Britain) Limited approximately 2½ miles from the corner of a 62,000-acre block in which the Company holds a 50% working interest. Gulf is currently drilling a follow-up well to the discovery and a third location has been announced. As a result of the Gulf discovery the Company and its partners are presently doing detailed seismic to define a location on their permit P. 053.

Arctic Islands

During July, 1968 the Company obtained a 100% interest in off-shore exploratory permits

Canadian Industrial Gas & Oil Ltd.

And its Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

Six Months Ended June 30, 1968 and 1967

(Unaudited)

	1968	1967
Sales, service and other operating income	$11,810,861	$10,426,349
Deduct:		
Gas and merchandise purchased	2,894,026	2,695,507
Selling, operating and administrative expenses	2,964,422	2,626,750
Interest on bank loans and other long term debt	655,033	485,757
	6,513,481	5,808,014
Income before the following	5,297,380	4,618,335
Deduct:		
Provision for depletion	1,255,919	931,371
Provision for depreciation	861,336	787,436
Minority interest in income of subsidiary	49,671	53,841
	2,166,926	1,772,648
Net income	3,130,454	2,845,687
Special credits		
—gain on disposal of investments	—	231,387
—gain on disposal of fixed assets	112,000	93,676
Net income and special credits	$ 3,242,454	$ 3,170,750
Cash income per common share before special credits*	$ .97	$ .82
Net income per common share (including 2¢ and 5¾¢ per share from special credits in 1968 and 1967 respectively)*	$ .58	$ .57

**Based on the number of outstanding common shares at June 30, 1968 for both periods.*

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Six Months Ended June 30, 1968 and 1967

(Unaudited)

	1968	1967
SOURCE OF FUNDS		
Net income and special credits	$ 3,242,454	$ 3,170,750
Non-cash items	2,003,926	1,447,585
	5,246,380	4,618,335
Sale of investments in other companies — net	68,835	465,797
Sale of properties, plant and equipment	507,357	572,972
Issue of common shares for cash	167,000	5,000
	5,989,572	5,662,104
APPLICATION OF FUNDS		
Additional investment in subsidiary company	—	41,269
Reduction of long term debt	2,448,465	959,407
Dividends on preferred shares	107,155	109,857
Reduction in deferred income	32,902	33,584
Additions to — oil and gas properties and equipment	2,105,912	2,718,396
— propane marketing equipment	486,817	419,693
	5,181,251	4,282,206
Increase in working capital during the period	$ 808,321	$ 1,379,898